MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2005

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

In my fiscal year 2004 report I concluded that we begin "the next fiscal year with a compelling mission, a sound plan, and with the financial and organizational capacity to execute." I am pleased to report that this conclusion was well founded, as the Agency completed another fiscal year during which it built upon its record of solid financial performance, significantly advanced its mission for the people of Minnesota, and conducted and began responding to its quadrennial Risk Based Capital Study for the purpose of assuring its future financial strength and ability to carry out its housing program mission.

Financially, the Agency continued to increase the net assets of its bond funds and General Reserve. This was aided by a significant increase in volume in our mortgage revenue bond program and significantly lower mortgage loan prepayments as the interest rate environment stabilized. Net assets of the State Appropriated fund decreased as expected due to spending down appropriations accumulated from prior years.

The Agency continued to advance the goals set forth in our current strategic plan, which was completed in February, 2004:

- End long-term homelessness;
- Increase minority homeownership;
- Preserve strategically the existing affordable housing stock;
- Increase housing choices for low- and moderate-income workers; and
- Establish the MHFA as a housing partner of choice.

The business plan to end long-term homelessness was finalized in March, 2004, and the first year benchmark for 200 units to be financed and in process was exceeded by 74. A number of stakeholders are investing—programmatically and financially—in this ambitious effort, and progress continues to be made in spite of significant challenges.

On June 30, 2005, a business plan to increase minority homeownership through the Emerging Markets Homeownership or EMHI was finalized and presented to the community. Development of the plan was lead by the Agency, the Fannie Mae Minnesota Partnership Office, and the Federal Reserve Bank of Minneapolis. Over 50 stakeholder groups, representing the Minnesota homeownership industry and the communities it serves, helped develop the plan, which sets a goal of 40,000 new emerging market Minnesota homeowners by 2012. Implementation is now underway.

Significant efforts and initiatives to advance the other goals are also in progress. Overall, there was continued strong demand for the Agency's programs. In the last program year (October 1, 2003 to September 30, 2004), the Agency continued its efforts to provide decent, safe, and affordable housing by serving nearly 56,000 households; 46% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000 and among tenants of Section 8 housing, 90% had incomes below $20,000 in 2004. The Agency provided $534 million of housing assistance in two main areas: First, $317 million for homeownership programs, primarily in the form of first mortgages and related entry cost assistance, and also for home improvement programs; and second, $217 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The decrease from the previous year for rental housing programs is largely due to several large loans having been closed in 2003 and reduced demand due to increased rental vacancy rates. The increase in housing assistance for homeownership programs over the previous year is attributable primarily to robust housing markets throughout the state, continuous availability of Agency first mortgage and home improvement resources, a strong network of lender delivery partners, and active program promotion and outreach. As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 22,000 first mortgage and deferred loans for homeownership, 15,000 second mortgage loans for

MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

home improvement and 1,200 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

The state of Minnesota's recently adopted biennial general fund budget and its capital budget reflect a continued commitment by the Governor and the Legislature to address the state's affordable housing needs. Just over $70.5 million was appropriated to the Agency for housing programs in 2006-07, a slight increase from the previous biennium, and a capital bonding appropriation of $12 million was provided to the Agency in support of the ending long-term homelessness initiative. In addition, the legislature took other action to support the state's housing needs including providing property tax relief to subsidized housing (a program to be administered by the Agency) and providing additional funding to other agencies which are working collaboratively with the Agency to implement the long-term homelessness initiative.

Finally, the Agency has worked with its financial advisor to complete the quadrennial Risk Based Capital Study. The study confirms that the Agency is able to meet its obligations to bondholders and maintain its current bond ratings. The study also projects that the Agency will continue to increase its net assets, but at a slower pace than in the past due to a number of market factors and policy decisions. Slower growth in net assets at a time when there are increasing housing program needs for these resources presents a challenge which the Agency must confront to maintain its financial strength and ability to address the housing needs of the future. The study makes a number of recommendations to address this issue, each of which will be pursued as the next two year affordable housing plan or program budget for federal fiscal years 2006-07 is developed and implemented.

The strength of an organization can, in part, be determined by its ability to anticipate challenges, understand them, and turn them into opportunities. The Risk Based Capital Study has allowed us to anticipate and understand the challenge of slower growth in our net worth. We are now about the business of identifying the opportunities this challenge will allow us to pursue. I am confident that I will be able to report progress on this matter, as well as continued progress in advancing the Agency's strategic goals, next year.

Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 15, 2005

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency
St. Paul, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Larson, Allen, Weishair Co., LLP

Minneapolis, Minnesota
August 15, 2005

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (MHFA or the Agency) was created in 1971 by an Act of the Minnesota legislature. It was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. MHFA is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. MHFA also receives funds appropriated by the federal government for similar purposes.

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations by law are not a debt of the State of Minnesota or any political subdivision thereof.

MHFA operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Tax Credit, Minnesota's Housing Trust Fund and MHFA's endowment funds and Alternative Loan Fund.

The members of MHFA (hereinafter referred to as the Board) consist of six members appointed at large by the Governor and one ex officio member (the State Auditor).

Independent Auditor Rotation

It is the Agency's normal business practice to rotate the engagement of its independent auditor each four years. During fiscal year 2005, the Agency solicited requests for proposals from qualified national and regional independent audit firms, resulting in the engagement of Larson, Allen, Weishair & Co., LLP for the next four years.

Risk Based Capital Study

Every four years the Agency conducts an extensive study of the credit worthiness and financial condition of its funds (not including State and Federal Appropriated accounts). The resulting report, known as the Risk Based Capital Study (Study), then becomes the basis for decisions about allocating resources and managing debt during the subsequent four years. The new Study, completed during fiscal year 2005, included a careful analysis of cash flows and other financial information to assure the appropriate matching of future liquidity to debt service obligations and affordable housing programs. Individual Agency funds were analyzed using expected-case economic assumptions and stress-case economic assumptions to determine their capital adequacy in various scenarios. The Study concludes that each individual fund is adequately capitalized to meet bond obligations and maintain credit ratings.

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of MHFA:

- The first two statements are Agency-wide financial statements that provide information about MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.

- The remaining statements are fund financial statements of MHFA's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.

Discussion of Financial Statements (continued)

- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2004. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing tax credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by MHFA.

Rental Housing

The majority of the loans presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for MHFA, so this portfolio continues to receive a significant amount of MHFA staff attention.

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Alternative Loan Fund is also available to finance multifamily developments.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment Fund (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund although no bonds were issued to support home improvement lending during fiscal year 2005.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2005.

The Homeownership Endowment Fund is a source of funding for entry cost housing assistance for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

Discussion of Individual Funds (continued)

The Multifamily Endowment Fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing, such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

The Housing Investment Fund is currently invested in investment grade housing loans, as defined by MHFA, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Housing Affordability Fund includes a housing administration contingency fund, consisting of cash and investment grade housing loans, as defined by MHFA, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

This fund was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002 MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements are budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

State and Federal Appropriated Funds

The appropriated funds are maintained by MHFA for the purpose of receiving and disbursing monies legislatively appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged to support the bondholders or creditors of MHFA.

The State Appropriated Fund was established to account for funds received from the state legislature, which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated Fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of MHFA. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

General Overview (continued)

MHFA financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all MHFA funds as required by accounting principles generally accepted in the United States of America. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

MHFA has no taxing power and neither the State of Minnesota nor any subdivision thereof is obligated to pay the principal or interest on debt and bonds issued by MHFA. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in MHFA to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to MHFA by the State of Minnesota or made available to MHFA from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

In addition to its audited annual financial statements, MHFA publishes quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on MHFA's web site at www.mhfa.state.mn.us.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2005	2004	$	2005	2004
Assets	Cash and Investments	1,389,770	1,335,512	54,258	1,314,505	1,249,343
	Loans receivable, Net	1,542,662	1,413,897	128,765	1,514,094	1,384,804
	Interest Receivable	11,151	11,334	(183)	10,826	10,820
	Total Assets	2,950,176	2,767,995	182,181	2,845,272	2,650,746
Liabilities	Bonds Payable	2,016,086	1,844,589	171,497	2,016,086	1,844,589
	Interest Payable	35,959	36,283	(324)	35,959	36,283
	Funds Held for Others	80,457	88,163	(7,706)	79,628	86,510
	Total Liabilities	2,149,821	1,986,907	162,914	2,148,080	1,983,768
Net Assets	Restricted by Bond Resolution	400,831	387,747	13,084	400,831	387,747
	Restricted by Covenant	293,597	277,457	16,140	293,597	277,457
	Restricted by Law	103,163	114,110	(10,947)	—	—
	Total Net Assets	800,355	781,088	19,267	697,192	666,978

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000's)

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2005	2004	$	2005	2004
Revenues	Interest Earned	127,327	134,431	(7,104)	125,342	132,544
	Appropriations Received	195,611	189,913	5,698	—	—
	Fees and Reimbursements	10,930	10,344	586	26,624	23,232
	Total Revenues	352,642	338,726	13,916	154,240	146,754
Expenses	Interest Expense	79,863	89,514	(9,651)	79,863	89,514
	Appropriations Disbursed	173,842	180,098	(6,256)	—	—
	Fees and Reimbursements	5,297	5,339	(42)	17,451	14,834
	Payroll, Gen. & Admin.	20,842	20,310	532	19,817	19,165
	Loan Loss/Value Adjustments	37,087	48,894	(11,807)	6,895	4,722
	Total Expenses	333,375	357,818	(24,443)	124,026	128,235
	Revenues over Expenses	19,267	(19,092)	38,359	30,214	18,519
	Beginning Net Assets	781,088	800,180	(19,092)	666,978	648,459
	Ending Net Assets	800,355	781,088	19,267	697,192	666,978

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2005	2004	Change $
65,162	75,265	86,169	(10,904)
129,290	28,568	29,093	(525)
6	325	514	(189)
194,526	104,904	117,249	(12,345)
171,497	—	—	—
(324)	—	—	—
(6,882)	829	1,653	(824)
164,312	1,741	3,139	(1,398)
13,084	—	—	—
16,140	—	—	—
—	103,163	114,110	(10,947)
30,214	103,163	114,110	(10,947)

Change $	Combined State and Federal Appropriations Funds 2005	2004	Change $
(7,202)	1,985	1,887	98
—	195,611	189,913	5,698
3,392	750	775	(25)
7,486	198,402	191,972	6,430
(9,651)	—	—	—
—	173,842	180,098	(6,256)
2,617	4,290	4,168	122
652	1,025	1,145	(120)
2,173	30,192	44,172	(13,980)
(4,209)	209,349	229,583	(20,234)
11,695	(10,947)	(37,611)	26,664
18,519	114,110	151,721	(37,611)
30,214	103,163	114,110	(10,947)

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and bond funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2005 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets in General Reserve and bond funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, and interest receivable comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending that supports a public mission objective. Loans receivable, net increased 9% to $1,514 million at June 30, 2005 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 5% to $1,315 million at June 30, 2005 due to proceeds of loan prepayments on hand and higher levels of debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased negligibly to $10.826 million at June 30, 2005.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable increased 9% to $2,016 million at June 30, 2005 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable decreased 1% to $35.959 million at June 30, 2005 as a result of lower average cost of bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 8% to $79.628 million at June 30, 2005 as multifamily loans were repaid and escrow balances disbursed.

Accounts payable and other liabilities increased 4% to $15.807 million at June 30, 2005 primarily as a result of higher levels of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the bond funds and Appropriated Funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the

General Reserve and Bond Funds — Statement of Net Assets (continued)

payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 5% to $697.192 million at June 30, 2005 as a result of consistent financial performance of the bond funds.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained adequate in fiscal year 2005, increasing from fiscal year 2004 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the affects of unrealized gains and losses on investments, both total revenues and total expenses decreased compared to the prior year. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, decreased during the year as yields on loans and investments remained at historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 5% to $125.342 million compared to the prior year, consistent with historically low interest rates. Loan interest decreased in fiscal year 2005 as new loan purchases and originations continue to be made at historically low interest rates. While investment yields increased slightly during the year, investment interest earned decreased in fiscal year 2005 as the average balance of investments, cash, and cash equivalents was lower compared to fiscal year 2004.

Administrative reimbursements to General Reserve from bond funds were $12.193 million in fiscal year 2005 compared to $9.532 million during the prior fiscal year. General Reserve also received reimbursements of $5.026 million from the State and Federal Appropriated funds to recover certain costs incurred to administer state and federal housing programs during fiscal year 2005 compared to $4.817 million during the prior fiscal year.

Other fee income to General Reserve and bond funds increased 6% to $9.405 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees and federal Housing Assistance Payments administration fees.

MHFA recorded $2.274 million of unrealized gains on investment securities during fiscal year 2005, compared to $9.022 million of unrealized losses during the prior year, for a net increase of $11.296 million. As the investment securities neared maturity, market value more closely approximated par value resulting in a net unrealized gain in 2005 compared to a net unrealized loss in 2004.

Interest expense of the bond funds decreased 11% to $79.863 million compared to the prior year as a result of reduced interest rates on recently issued bonds.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 18% to $17.451 million compared to the prior year. The majority of the increase results from the administrative reimbursement rate in the bond funds being restored to its historical level in fiscal year 2005 after having been reduced in fiscal year 2004 when requirements were lower. It should be noted that $12.193 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the bond funds which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve and bond funds increased 3% to $19.817 million compared to the prior year as operating expenses continue to increase modestly.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $3.246 million to $5.738 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds decreased 48% to $1.157 million, consistent with management's assessment of loan portfolio risk.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses including unrealized gains and losses for General Reserve and the bond funds increased $11.695 million to $30.214 million compared to prior year. After considering the non-operating effects of $11.296 million of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are consistent with the prior year performance. This level of net revenues over expenses remains comparable within the range of performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds have increased 5% to $697.192 million as a result of revenues over expenses for fiscal year 2005. The net assets of General Reserve, Rental Housing, and Residential Housing Finance have increased while net assets of Single Family have decreased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to MHFA by the federal government for housing related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the Appropriated Funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2005 combined balance decreased 13% to $75.265 million as a result of combined disbursements for programs, loans and expenses being in excess of combined appropriations received and revenues in the current year.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2005 State Appropriated Fund loans receivable decreased 2% to $28.568 million reflecting lower current year net loan program activity.

Interest receivable in Appropriated Funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on Appropriated Funds at June 30, 2005 decreased 37% to $.325 million primarily as a result of lower average investment balances.

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2005 was $1.512 million compared to $2.720 million at June 30, 2004. The reduction in accounts payable and other liabilities is largely attributable to reduced program activity.

For administrative convenience, certain State Appropriated Fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing

State and Federal Appropriated Funds — Statement of Net Assets (continued)

activities. Interfund payable occurs in the Federal Appropriated Fund as a result of overhead expense and indirect cost recoveries due to MHFA. At June 30, 2005 the combined net interfund receivable was $.600 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, HUD's share of savings from certain debt refinancing activities, and the interest income earned on those unexpended funds. At June 30, 2005 the balance of funds held for the federal government was $.829 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $103.163 million as of June 30, 2005 compared to the prior period, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2005.

State and Federal Appropriated Funds — Revenues Over Expenses

State and federal appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by the various agreements between MHFA and the State of Minnesota or agencies of the federal government. Unexpended appropriations proceeds are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $189.913 million at June 30, 2004 to $195.611 at June 30, 2005. Federal appropriations received increased by $6.510 million while state appropriations received decreased by $.812 million.

Interest income from investments increased slightly throughout the year as investment yields in general were above the previous historically low levels while investment assets decreased during the year. The combined interest income increased 4% to $1.914 million at June 30, 2005.

Loan interest income from State Appropriations loan assets continues to be minimal at $.071 million as relatively few loans are interest bearing.

Private donations to support state housing programs in the amount of $.750 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2005.

Unrealized losses on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Combined unrealized losses decreased from $.603 million at June 30, 2004 to an unrealized gain of $.056 million at June 30, 2005 as previous losses were reversed as investment asset balances were spent in program disbursements.

Administrative reimbursements of expenses to General Reserve increased 3% to $4.251 million compared to the prior year, primarily as a result of increased expense to administer state appropriated programs. It should be noted that $4.251 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the State Appropriated fund which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Combined appropriations disbursed decreased 3% to $173.842 million compared to prior year, reflecting reduced State Appropriations disbursed of $10.367 million and increased federal appropriations disbursed of $4.111 million to support housing policy objectives.

Reduced expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in less reductions in carrying value of certain loans. Net reductions of

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

carrying value decreased 32% to $30.077 million compared to the prior year, as a result of making fewer fully reserved deferred loans for low- and moderate-income housing.

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense decreased 10% to $1.025 million at June 30, 2005.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $10.947 million at June 30, 2005, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2005 long-term debt totaling $1,357 million and short-term debt totaling $659 million, net of deferred finance and issuance costs. MHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2005, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2005, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. MHFA is increasingly issuing variable-rate debt to provide below-market, fixed-rate mortgages for homeownership. Generally, interest-rate swaps are purchased to hedge against potential loss stemming from the difference between variable-rate liabilities and related fixed-rate assets. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process MHFA follows to issue and manage debt and state statute limits MHFA's outstanding debt to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm general obligation ratings for MHFA of AA+ and Aa1 respectively. MHFA's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. In addition to ongoing reporting to and communications with the bond rating services, periodically MHFA prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by MHFA staff to make decisions about management of assets and debt. (See Risk Based Capital Study.)

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority. During the year, MHFA completed the issuance/remarketing of 25 series of bonds aggregating to $799 million. This is compared to the combined issuance and remarketing of 26 series totaling $761 million the previous year. In recent years, MHFA has retired high rate debt when it becomes optionally

Significant Long-term Debt Activity (continued)

redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $625 million in principal payments and $75 million of interest payments were made during the year. Of the total principal payments, $363 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

In a special session, the 2005 Minnesota Legislature adopted a biennial budget for FY 2006-2007 that appropriates monies to MHFA at a level nearly identical to the previous biennium. $700,000 more or about 1% increase to the base was appropriated for this biennium as compared to the previous biennium. The State faced another budget deficit, although considerably smaller than the previous biennium. State appropriations are used for specific programs and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2005 (with comparative totals for June 30, 2004)

		2005 Agency-wide Total	2004 Agency-wide Total
Assets	Cash and cash equivalents	$1,067,625	$ 950,429
	Investment securities	322,145	385,083
	Loans receivable, net	1,542,662	1,413,897
	Interest receivable on loans	7,523	7,395
	Interest receivable on investments	3,628	3,939
	Mortgage insurance claims receivable	922	763
	Real estate owned	905	1,593
	Capital assets, net	2,764	1,774
	Other assets	2,002	3,122
	Total assets	$2,950,176	$2,767,995
Liabilities	Bonds payable, net	$2,016,086	$1,844,589
	Interest payable	35,959	36,283
	Accounts payable and other liabilities	17,319	17,872
	Funds held for others	80,457	88,163
	Total liabilities	2,149,821	1,986,907
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	400,831	387,747
	Restricted by covenant	293,597	277,457
	Restricted by law	103,163	114,110
	Invested in capital assets	2,764	1,774
	Total net assets	800,355	781,088
	Total liabilities and net assets	$2,950,176	$2,767,995

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

		2005 Agency-wide Total	2004 Agency-wide Total
Revenues	Interest earned on loans	$ 90,344	$ 95,338
	Interest earned on investments	36,983	39,093
	Appropriations received	195,611	189,913
	Administrative reimbursement	775	686
	Fees earned and other income	10,155	9,658
	Unrealized gains (losses) on securities	2,330	(9,625)
	Total revenues	336,198	325,063
Expenses	Interest	79,863	89,514
	Loan administration and trustee fees	5,297	5,339
	Salaries and benefits	13,693	13,131
	Other general operating	7,149	7,179
	Appropriations disbursed	173,842	180,098
	Reduction in carrying value of certain low interest rate deferred loans	35,815	46,467
	Provision for loan losses	1,272	2,427
	Total expenses	316,931	344,155
	Revenues over (under) expenses	19,267	(19,092)
	Change in net assets	19,267	(19,092)
Net Assets	Total net assets, beginning of year	781,088	800,180
	Total net assets, end of year	$800,355	$781,088

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2005 (with comparative totals for June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,841	$ 41,485	$ 844,611	$165,952
	Investment securities	110,692	47,840	84,376	14,708
	Loans receivable, net	—	212,420	893,785	407,889
	Interest receivable on loans	—	1,289	3,956	2,278
	Interest receivable on investments	819	1,153	815	516
	Mortgage insurance claims receivable	—	—	485	437
	Real estate owned	—	—	289	616
	Capital assets, net	2,764	—	—	—
	Other assets	1,228	3	25	—
	Total assets	$120,344	$304,190	$1,828,342	$592,396
Liabilities	Bonds payable, net	$ —	$201,200	$1,312,647	$502,239
	Interest payable	—	3,846	18,334	13,779
	Accounts payable and other liabilities	3,580	1,063	4,012	7,152
	Interfund payable (receivable)	3,589	21,005	(24,541)	547
	Funds held for others	79,628	—	—	—
	Total liabilities	86,797	227,114	1,310,452	523,717
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	77,076	255,076	68,679
	Restricted by covenant	30,783	—	262,814	—
	Restricted by law	—	—	—	—
	Invested in capital assets	2,764	—	—	—
	Total net assets	33,547	77,076	517,890	68,679
	Total liabilities and net assets	$120,344	$304,190	$1,828,342	$592,396

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	**Federal Appropriated**	**2005 Total**	**2004 Total**
$ 6,648	$ 4,088	$1,067,625	$ 950,429
58,052	6,477	322,145	385,083
28,568	—	1,542,662	1,413,897
—	—	7,523	7,395
236	89	3,628	3,939
—	—	922	763
—	—	905	1,593
—	—	2,764	1,774
—	746	2,002	3,122
$93,504	$11,400	$2,950,176	$2,767,995
$ —	$ —	$2,016,086	$1,844,589
—	—	35,959	36,283
454	1,058	17,319	17,872
(816)	216	—	—
—	829	80,457	88,163
(362)	2,103	2,149,821	1,986,907
—	—	400,831	387,747
—	—	293,597	277,457
93,866	9,297	103,163	114,110
—	—	2,764	1,774
93,866	9,297	800,355	781,088
$93,504	$11,400	$2,950,176	$2,767,995

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$14,552	$ 44,910	$ 30,811
	Interest earned on investments	730	3,442	21,695	9,202
	Appropriations received	—	—	—	—
	Administrative reimbursement	17,219	—	—	—
	Fees earned and other income	8,092	892	421	—
	Unrealized gains (losses) on securities	(251)	1,449	177	899
	Total revenues	25,790	20,335	67,203	40,912
Expenses	Interest	—	12,836	34,935	32,092
	Loan administration and trustee fees	—	239	3,361	1,658
	Administrative reimbursement	—	1,909	6,050	4,234
	Salaries and benefits	13,693	—	—	—
	Other general operating	5,227	—	897	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(135)	5,873	—
	Provision for loan losses	—	(521)	1,667	11
	Total expenses	18,920	14,328	52,783	37,995
	Revenues over (under) expenses	6,870	6,007	14,420	2,917
Other changes	Non-operating transfer of assets between funds	(3,438)	998	16,433	(13,993)
	Change in net assets	3,432	7,005	30,853	(11,076)
Net Assets	Total net assets, beginning of year	30,115	70,071	487,037	79,755
	Total net assets, end of year	$33,547	$77,076	$517,890	$ 68,679

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 71	$ —	$ 90,344	$ 95,338
1,692	222	36,983	39,093
34,257	161,354	195,611	189,913
—	—	17,219	14,349
750	—	10,155	9,658
5	51	2,330	(9,625)
36,775	161,627	352,642	338,726
—	—	79,863	89,514
39	—	5,297	5,339
4,251	—	16,444	13,663
—	—	13,693	13,131
1,025	—	7,149	7,179
13,347	160,495	173,842	180,098
30,077	—	35,815	46,467
115	—	1,272	2,427
48,854	160,495	333,375	357,818
(12,079)	1,132	19,267	(19,092)
—	—	—	—
(12,079)	1,132	19,267	(19,092)
105,945	8,165	781,088	800,180
$ 93,866	$ 9,297	$800,355	$781,088

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve Account	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 22,977	$ 92,607	$ 113,299
	Investment in loans	—	(6,045)	(363,753)	(436)
	Interest received on loans	—	15,457	44,718	29,654
	Other operating	—	—	(897)	—
	Fees and other income received	8,057	892	451	—
	Salaries, benefits and vendor payments	(18,623)	(214)	(2,603)	(1,575)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	17,324	(1,909)	(6,050)	(4,234)
	Interest transferred to funds held for others	(2,484)	—	—	—
	Deposits into funds held for others	30,445	—	—	—
	Disbursements made from funds held for others	(37,052)	—	—	—
	Interfund transfers and other assets	(1,057)	—	368	(620)
	Net cash provided (used) by operating activities	(3,390)	31,158	(235,159)	136,088
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	85,290	713,728	—
	Principal repayment on bonds	—	(98,795)	(333,295)	(192,795)
	Interest paid on bonds and notes	—	(11,339)	(27,580)	(36,002)
	Financing costs paid related to bonds issued	—	(3,053)	(2,898)	—
	Interest paid/received between funds	—	(1,635)	1,635	—
	Principal paid/received between funds	—	(218)	218	—
	Premium paid on redemption of bonds	—	—	—	(142)
	Agency contribution to program funds	—	188	13,805	(13,993)
	Transfer of cash between funds	(4,036)	810	3,226	—
	Net cash provided (used) by noncapital financing activities	(4,036)	(28,752)	368,839	(242,932)
Cash flows from investing activities	Investment in real estate owned	—	—	(95)	(533)
	Interest received on investments	3,566	3,539	19,655	7,215
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	1,558	5,435
	Proceeds from maturity, sale or transfer of investment securities	99,604	14,180	97,912	6,300
	Purchase of investment securities	(95,710)	(21,913)	(38,016)	(7,613)
	Net cash provided (used) by investing activities	7,460	(4,194)	81,014	10,804
	Net increase (decrease) in cash and cash equivalents	34	(1,788)	214,694	(96,040)
Cash and cash equivalents	Beginning of year	4,807	43,273	629,917	261,992
	End of year	$ 4,841	$ 41,485	$ 844,611	$ 165,952

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 8,328	$ —	$ 237,211	$ 368,968
(38,206)	—	(408,440)	(356,231)
71	—	89,900	92,078
(1,035)	—	(1,932)	(1,118)
1,000	—	10,400	9,513
(39)	—	(23,054)	(23,619)
34,257	161,831	196,088	189,434
(13,425)	(161,401)	(174,826)	(179,136)
(4,359)	—	772	664
—	(21)	(2,505)	(2,660)
—	1,634	32,079	36,615
—	(2,458)	(39,510)	(36,568)
739	—	(570)	(337)
(12,669)	(415)	(84,387)	97,603
—	—	799,018	764,426
—	—	(624,885)	(765,673)
—	—	(74,921)	(89,538)
—	—	(5,951)	(4,726)
—	—	—	—
—	—	—	—
—	—	(142)	(1,418)
—	—	—	—
—	—	—	—
—	—	93,119	(96,929)
—	—	(628)	(741)
1,558	319	35,852	40,734
—	—	6,993	6,593
86,200	—	304,196	386,841
(74,697)	—	(237,949)	(341,577)
13,061	319	108,464	91,850
392	(96)	117,196	92,524
6,256	4,184	950,429	857,905
$ 6,648	$ 4,088	$1,067,625	$ 950,429

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 6,870	$ 6,007	$ 14,420	$ 2,917
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(65)	1,000	(1,524)
Depreciation	555	—	—	—
Realized losses (gains) on sale of securities, net	9	—	(1,193)	—
Unrealized losses (gains) on securities, net	251	(1,449)	(177)	(899)
Provision for loan losses	—	(521)	1,667	11
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(135)	5,873	—
Capitalized interest on loans and real estate owned	—	(67)	(123)	(276)
Interest earned on investments	(739)	(3,438)	(21,548)	(9,706)
Interest expense on bonds and notes	—	12,836	34,935	32,092
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	16,932	(271,146)	112,863
Decrease (increase) in interest receivable on loans	—	408	(1,069)	533
Increase in arbitrage rebate liability	—	625	1,046	614
Interest transferred to funds held for others	(2,484)	—	—	—
Increase (decrease) in accounts payable	124	20	791	78
Increase (decrease) in interfund payable, affecting operating activities only	479	—	(119)	(620)
Increase (decrease) in funds held for others	(6,607)	—	—	—
Other	(1,848)	5	484	5
Total	(10,260)	25,151	(249,579)	133,171
Net cash provided (used) by operating activities	$ (3,390)	$31,158	$(235,159)	$136,088

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$(12,079)	$ 1,132	$ 19,267	$ (19,092)
—	—	(589)	(3,464)
—	—	555	481
—	—	(1,184)	(2,026)
(5)	(51)	(2,330)	9,625
114	—	1,271	2,427
30,077	—	35,815	46,467
—	—	(466)	(537)
(1,692)	(222)	(37,345)	(38,320)
—	—	79,863	89,514
(29,878)	—	(171,229)	12,737
—	—	(128)	637
—	—	2,285	1,358
—	(21)	(2,505)	(2,660)
(88)	(908)	17	1,476
632	2	374	—
—	(824)	(7,431)	47
250	477	(627)	(1,067)
(590)	(1,547)	(103,654)	116,695
$(12,669)	$ (415)	$ (84,387)	$ 97,603

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or MHFA) was created in 1971 by an Act of the Minnesota legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform with the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance and Single Family.

Rental Housing

Bond proceeds for the multifamily housing programs are maintained under the Rental Housing bond resolution. Loans are secured by first mortgages on real property.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is a source of funding for entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and to warehouse loans.

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

This fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade housing loans, as defined by the Agency, for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans including zero-percent deferred loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

Bonds issued for homeownership programs have been issued under Single Family and Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

On March 27, 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase*, to require disclosure of information covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies.
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or segmented time distribution.
- Interest rate sensitivity for investments highly sensitive to changes in interest rates (e.g., inverse floaters, enhanced variable-rate investments, and certain asset-backed securities).
- Foreign exchange exposures that would indicate the foreign investment's denomination.

GASB Statement No. 40 is effective for the Agency's fiscal year ending June 30, 2005. This GASB Statement was adopted by the Agency for the fiscal year ended June 30, 2005 and did not affect the Agency's net assets.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Under GASB Statement No. 42, a capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Additionally, GASB Statement No. 42 requires impaired capital assets that are idle to be disclosed, and those that will no longer be used by the government to be reported at the lower of carrying value or fair value. GASB Statement No. 42 also requires that an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset to be netted with the impairment loss, if any. The provisions of GASB Statement No. 42 are effective for the Agency's fiscal year ending June 30, 2006. The adoption of GASB Statement No. 42 in fiscal 2006 is not expected to have a significant effect on the Agency's financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities

Summary of Significant Accounting Policies (continued)

(assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*. This statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for the Agency's fiscal year ending June 30, 2006. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement stipulates the basis for recognizing liability and expense for voluntary and involuntary employee termination benefits. The Statement is effective for the Agency's fiscal year ending June 30, 2006. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities

The Agency carries all investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Summary of Significant Accounting Policies (continued)

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2005.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Prepayments of mortgages are taken into account in the calculation of the amortization. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become 'real estate owned' (described below) for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan, or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred financing costs. Premiums, discounts and deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Rental Housing fund, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Summary of Significant Accounting Policies (continued)

Restricted by Covenant

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2004 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $775,000 are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $16,444,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program, annual fees related to certain multifamily housing development loans and private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program. Fees earned and other income is recorded as it is earned.

Summary of Significant Accounting Policies (continued)

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, periodic transfers to bond funds to fulfill bond resolution requirements and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2005 were $1.92 million and $3.60 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Related Party Transactions

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

Income Taxes

The Agency, as a component unit of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. Also included in this category is yield compliance liability owed to the United States Treasury.

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), corporate obligations, Minnesota municipal bonds and other investments consistent with requirements of safety and liquidity that do not violate applicable provisions of the bond resolutions, state law or Board policy.

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2005 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	Investment Agreements	Combined Totals
General Reserve	$ 1,379	$ 3,462	$ —	$ 4,841
Rental Housing	697	7,511	33,277	41,485
Residential Housing Finance	7,686	77,084	759,841	844,611
Single Family	5,288	9,212	151,452	165,952
State Appropriated	—	6,648	—	6,648
Federal Appropriated	969	3,119	—	4,088
Agency-wide Totals	$16,019	$107,036	$944,570	$1,067,625

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond funds. As of June 30, 2005, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA-" or higher and a Moody's long-term credit rating of "Aa3" or higher. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

Investment securities are recorded at fair market value and are composed of the following at June 30, 2005 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries, US Agencies and Municipals, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve	$111,122	$ (430)	$110,692
Rental Housing	46,163	1,677	47,840
Residential Housing Finance	83,114	1,262	84,376
Single Family	13,220	1,488	14,708
State Appropriated	58,261	(209)	58,052
Federal Appropriated	6,444	33	6,477
Agency-wide Totals	$318,324	$3,821	$322,145

Cash, Cash Equivalents and Investment Securities (continued)

US treasury, US agency and municipal securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury, US agency and municipal securities in the remainder of the funds are held by the Agency's trustee in the Agency's name. US agency investments have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. The municipal investments have a Standard & Poor's rating of AAA and a Moody's rating of Aaa.

Examining the maturities of the Agency's debt securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of $3.821 million), along with maturities of the Agency's debt securities, as of June 30, 2005, consist of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

		Maturities (In Years)				
Type	Par Value	Less than 0.5	0.5 - 1	1 - 2	2 - 10	10 or More
Deposits	$ 15,050	$ 15,050	$ —	$ —	$ —	$ —
Money market fund	107,036	107,036	—	—	—	—
Investment agreements	944,570	944,570	—	—	—	—
Commercial Paper	969	969	—	—	—	—
US Agencies	301,656	76,200	66,500	110,030	32,305	16,621
US Treasuries	18,385	—	—	—	—	18,385
Municipals	2,000	—	2,000	—	—	—
Agency-wide Totals	$1,389,666	$1,143,825	$68,500	$110,030	$32,305	$35,006

Investments in any one issuer that represent 5 percent or more of total investments as of June 30, 2005 are as follows (in thousands):

Investment Issuer	Amount
IXIS Funding Corporation, investment agreements	$327,240
Bayerische Landesbank, investment agreements	268,214
FSA Capital Management Services, investment agreements	155,615

The Agency maintains certain deposits and investments throughout the year that are subject to custodial credit risk. As of June 30, 2005, those amounts subject to this risk consists of the following:

	Amount
Deposits not covered by depository insurance and uncollateralized (including $107,036 in a money market fund)	$122,086
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	146,924
Agency-wide Total	$269,010

Net realized gain on sale of investment securities of $1.184 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2005 are as follows (in thousands):

Funds	Amount
Rental Housing	$20,753
Residential Housing Finance	19,377
Single Family	23,803
Totals	$63,933

Loans Receivable, Net

Loans receivable, net at June 30, 2005 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	220,946	(7,350)	(1,176)	212,420
Residential Housing Finance	905,182	(10,242)	(1,155)	893,785
Single Family	413,053	(103)	(5,061)	407,889
State Appropriated	29,603	(1,035)	—	28,568
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,568,784	$(18,730)	$(7,392)	$1,542,662

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) are largely privately insured or insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2005, the amount of these loans originated was $5.355 million in the Housing Affordability Fund, $4.012 million in the Homeownership Endowment Fund, $1.355 million in the Multifamily Endowment Fund and $34.478 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2005 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$101,657
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	6,494
Other homeownership loans, generally secured by a second mortgage	10,285
Multifamily Endowment Fund:	
Multifamily, subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	573,402
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	27,479
Multifamily, first mortgage loans	13,548
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	124,913
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	36,007
Residential Housing Finance Totals	$893,785

By statute, the Agency is limited to financing real estate located within the State of Minnesota. Collectibility depends on local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2005 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,170	$58	$1,228
Rental Housing	—	3	3
Residential Housing Finance	—	25	25
Single Family	—	—	—
State Appropriated	—	—	—
Federal Appropriated	746	—	746
Agency-wide Totals	$1,916	$86	$2,002

Bonds Payable, Net

Bonds payable, net at June 30, 2005 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Unamortized Deferred Gain	Bonds Payable, Net
Rental Housing	$ 208,180	$ (2,697)	$ —	$(4,283)	$ 201,200
Residential Housing Finance	1,314,705	(5,750)	3,692	—	1,312,647
Single Family	507,615	(5,376)	—	—	502,239
Totals	$2,030,500	$(13,823)	$3,692	$(4,283)	$2,016,086

Summary of bond activity from June 30, 2004 to June 30, 2005 (in thousands):

Funds	June 20, 2004 Bonds Outstanding	Par Issued	Par Repaid	June 30, 2005 Bonds Outstanding
Rental Housing	$ 221,685	$ 85,290	$ 98,795	$ 208,180
Single Family	700,410	—	192,795	507,615
Residential Housing Finance	935,210	712,790	333,295	1,314,705
Totals	$1,857,305	$798,080	$624,885	$2,030,500

Outstanding principal of bonds payable at June 30, 2005 are as follows (in thousands):

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.10% to 5.95%	2005-2015	$ 38,210	$14,120
1995 Series D	5.25% to 6.00%	2005-2022	234,590	17,035
1996 Series A	5.30% to 6.10%	2005-2027	2,820	2,525
1997 Series A	4.95% to 5.875%	2005-2028	4,750	4,275
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,420
1998 Series C	4.40% to 5.20%	2005-2029	2,865	2,610
1999 Series A	4.15% to 5.10%	2005-2024	4,275	3,755
1999 Series B	5.00% to 6.15%	2005-2025	3,160	2,660
2000 Series A	5.35% to 6.15%	2008-2030	9,290	7,745
2000 Series B	5.90%	2031	5,150	4,880
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,650
2002 Series A	2.00% to 4.05%	2005-2014	27,630	23,500
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds (continued)				
2003 Series B	4.15% to 5.08%	2013-2031	$ 1,945	$ 1,915
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,080
2003 Series C-2	1.80%	2005	100	100
2004 Series A	1.60% to 5.00%	2005-2035	9,345	9,345
2004 Series B	4.00% to 4.85%	2014-2035	3,215	3,215
2004 Series C	1.75% to 4.40%	2005-2022	80,000	80,000
2005 Series A-1	4.25% to 4.85%	2014-2035	1,725	1,725
2005 Series A-2	2.60%	2006	350	350
			458,770	208,180
Residential Housing Finance Bonds				
1995 Series A	5.05% to 5.85%	2005-2017	53,645	14,995
2002 Series A	4.75% to 5.30%	2012-2019	14,035	5,540
2002 Series B	3.85% to 5.65%	2005-2033	59,650	26,220
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.80% to 5.35%	2005-2033	25,760	24,030
2002 Series E	4.30% to 5.00%	2013-2020	12,805	11,520
2002 Series F	2.85% to 5.40%	2005-2032	52,195	44,675
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	39,045
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series H	1.62%	2005	38,610	19,445
2003 Series I	1.85% to 5.25%	2005-2035	25,000	24,280
2003 Series J	Variable	2033	25,000	24,860
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2004 Series A	3.20% to 4.25%	2011-2018	22,480	21,575
2004 Series B	1.55% to 5.00%	2005-2033	94,620	89,590
2004 Series C	4.70%	2035	14,970	14,365
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,110
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,475
2004 Series F-1	2.45% to 4.50%	2006-2012	4,600	4,600
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	36,160
2004 Series G	Variable	2032	50,000	50,000
2004 Series H	1.62%	2005	41,510	41,510
2004 Series I	2.20%	2005	740	740
2004 Series J	2.30%	2005	56,540	56,540
2004 Series K	2.30%	2005	63,045	63,045
2005 Series A	2.40% to 4.125%	2007-2018	14,575	14,575
2005 Series B	4.75% to 5.00%	2030-2035	20,425	20,425
2005 Series C	Variable	2035	25,000	25,000
2005 Series D	2.90%	2006	54,010	54,010
2005 Series E	2.95%	2006	116,005	116,005
2005 Series F	2.95%	2006	29,985	29,985
2005 Series G	4.25% to 4.30%	2017-2018	8,950	8,950

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2005 Series H	3.00% to 5.00%	2007-2036	$ 51,050	$ 51,050
2005 Series I	Variable	2036	40,000	40,000
			1,433,335	1,314,705
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.55% to 5.95%	2005-2017	26,740	8,020
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.95% to 6.25%	2005-2015	16,365	8,310
1993 Series D	6.40%	2027	17,685	3,410
1993 Series F	6.25%	2020	9,500	1,580
1994 Series D	5.00%	2005	91,660	5,245
1994 Series E	4.80% to 5.90%	2005-2025	31,820	13,735
1994 Series T	5.40% to 6.125%	2005-2017	16,420	2,135
1995 Series B	6.40% to 6.55%	2017-2027	35,815	9,070
1995 Series D	6.40% to 6.45%	2015-2025	40,160	9,545
1995 Series G	7.25% to 8.05%	2005-2012	8,310	935
1995 Series H	6.40%	2027	19,240	3,700
1995 Series I	6.35%	2017-2018	7,450	1,435
1995 Series J	5.10% to 6.10%	2005-2019	16,065	2,920
1995 Series K	6.20%	2020	1,495	365
1995 Series L	6.25%	2027	12,950	3,155
1995 Series M	5.00% to 5.875%	2005-2017	32,025	8,710
1996 Series A	6.375%	2028	34,480	5,305
1996 Series B	6.35%	2018-2019	7,990	2,715
1996 Series C	5.40% to 6.10%	2005-2015	12,345	2,535
1996 Series D	5.35% to 6.00%	2005-2017	23,580	3,290
1996 Series E	6.25%	2022-2023	14,495	2,965
1996 Series F	6.30%	2026-2028	18,275	3,740
1996 Series G	6.25%	2026-2028	41,810	7,075
1996 Series H	6.00%	2021	13,865	2,350
1996 Series I	7.17% to 8.00%	2005-2017	14,325	1,955
1996 Series J	5.60%	2021	915	260
1996 Series K	4.50% to 5.40%	2005-2017	9,280	3,315
1997 Series A	5.20% to 5.95%	2005-2017	22,630	4,920
1997 Series B	6.20%	2021	9,180	2,800
1997 Series C	6.25%	2029	27,740	3,220
1997 Series D	5.80% to 5.85%	2019-2021	15,885	5,130
1997 Series E	5.90%	2029	23,495	4,385
1997 Series F	7.12% to 7.25%	2005-2007	11,620	600
1997 Series G	5.25% to 6.00%	2005-2018	40,260	4,125
1997 Series I	5.50%	2017	9,730	4,245
1997 Series K	5.75%	2026-2029	22,700	9,895
1997 Series L	6.65% to 6.80%	2005-2007	9,550	860
1998 Series A	4.65% to 5.20%	2008-2017	5,710	1,985
1998 Series B	4.65% to 5.50%	2005-2029	17,030	4,345
1998 Series C	4.45% to 5.25%	2005-2017	21,775	7,730
1998 Series E	5.40%	2025-2030	30,500	14,340
1998 Series F-1	4.55% to 5.45%	2005-2017	10,650	3,495

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1998 Series G-1	5.60%	2022	$ 6,150	$ 2,610
1998 Series H-1	5.65%	2031	14,885	6,315
1998 Series F-2	4.75% to 5.70%	2005-2017	11,385	6,005
1998 Series G-2	6.00%	2022	6,605	4,390
1998 Series H-2	6.05%	2031	15,965	10,620
1999 Series B	5.00% to 5.25%	2013-2020	18,865	10,165
1999 Series C	4.40% to 4.85%	2005-2024	21,960	6,310
1999 Series D	5.45%	2026-2031	23,975	12,945
1999 Series H	5.30% to 5.80%	2011-2021	16,350	7,790
1999 Series I	4.80% to 6.05%	2005-2031	34,700	12,400
1999 Series J	5.00%	2017	4,745	3,605
1999 Series K	3.40% to 5.35%	2005-2033	44,515	32,720
2000 Series A	5.25% to 5.85%	2009-2020	18,650	9,215
2000 Series B	5.25% to 5.55%	2005-2024	16,580	6,115
2000 Series C	6.10%	2030-2032	30,320	14,985
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	28,675
2000 Series H	4.10% to 5.50%	2005-2023	32,475	19,430
2000 Series I	4.90% to 5.80%	2005-2019	20,185	11,890
2000 Series J	5.40% to 5.90%	2023-2030	29,720	18,660
2001 Series A	5.35% to 5.45%	2017-2022	14,570	9,770
2001 Series B	4.30% to 5.675%	2005-2030	34,855	20,720
2001 Series E	2.00% to 4.90%	2006-2035	23,000	22,395
			1,389,555	507,615
Combined Totals			$3,281,660	$2,030,500

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

Bonds Payable, Net (continued)

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2005, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2006	$11,260	$ 9,136	$501,465	$ 38,313
2007	11,325	8,778	187,315	29,465
2008	11,470	8,397	16,540	25,159
2009	12,040	7,978	11,950	24,665
2010	12,665	7,507	17,455	24,103
2011-2015	61,125	29,264	83,040	110,467
2016-2020	41,145	17,726	88,100	91,466
2021-2025	19,220	9,662	108,155	71,224
2026-2030	14,400	5,407	136,400	48,403
2031-2035	7,820	2,418	148,740	19,712
2036-2040	2,675	1,094	15,545	549
2041-2045	3,035	428	—	—

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2006	$ 46,660	$ 26,983	$559,385	$ 74,432
2007	9,500	25,491	208,140	63,734
2008	9,565	25,013	37,575	58,570
2009	10,100	24,529	34,090	57,173
2010	11,195	23,992	41,315	55,601
2011-2015	76,455	109,076	220,620	248,808
2016-2020	92,020	85,009	221,265	194,201
2021-2025	108,505	57,175	235,880	138,061
2026-2030	110,965	24,737	261,765	78,547
2031-2035	32,020	2,867	188,580	24,996
2036-2040	630	15	18,850	1,658
2041-2045	—	—	3,035	428

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of the table above based on the mandatory tender dates of those bonds. This presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, and 2005 Series C and I accrue interest at a rate that changes each week. The rate is determined through a weekly remarketing of the outstanding bonds. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate as of June 30, 2005. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate as of June 30, 2005. As rates vary, variable rate bond interest payments will vary.

Bonds Payable, Net (continued)

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2005, it is in compliance with those covenants and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

As of or after June 30, 2005, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

The Agency has entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

Swap Payments and Associated Debt

Using rates as of June 30, 2005, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 440	$ 3,398	$ 2,250	$ 6,088
2007	—	3,941	2,071	6,012
2008	—	3,941	1,791	5,732
2009	—	3,941	1,521	5,462
2010	—	3,941	1,257	5,198
2011-2015	—	19,706	2,740	22,446
2016-2020	4,655	19,604	(2,612)	21,647
2021-2025	39,955	17,447	(5,689)	51,713
2026-2030	63,885	11,007	(5,957)	68,935
2031-2035	52,445	3,211	(2,234)	53,422
2036-2040	3,480	61	(21)	3,520

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2005, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on approximately the 10-year anniversary date of the swaps. The Agency has the right to terminate swaps at fair value at any time.

Interest Rate Swaps (continued)

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$ 25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$ (294,770)	January 1, 2033	Aa2**/ AA+***
RHFB 2003J	24,860,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.24% per annum	(2,001,922)	July 1, 2033	Aa2**/ AA+***
RHFB 2004G	50,000,000	July 22, 2004	4.165%	64% of one-month LIBOR* plus 0.28% per annum	(3,582,471)	January 1, 2032	Aa2**/ AA-***
RHFB 2005C	25,000,000	March 2, 2005	3.587%	64% of one-month LIBOR* plus 0.28% per annum	(795,342)	January 1, 2035	Aa2**/ AA+***
RHFB 2005I	40,000,000	June 2, 2005	3.570%	64% of one-month LIBOR* plus 0.28% per annum	(2,024,920)	January 1, 2036	Aa1**/ AA-***
Total	$164,860,000				$(8,699,425)		

*London Interbank Offered Rate
**Moody's Investors Service, Inc.
***Standard & Poor's Inc.

Swap Valuation

The Fair Values presented above were estimated by the Agency's counterparties to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations along with accrued interest at the fixed contractual interest rate determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2005. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Interest Rate Swaps (continued)

Credit Risk

The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparties with which the swaps were executed. As of June 30, 2005, the Agency did not have a net credit risk exposure to its counterparties because the combined swap positions had a negative net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2005.

Amortization Risk

The Agency may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

Basis Risk

The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of June 30, 2005, the interest rate on the Agency's variable rate debt was 2.30% to 2.35% per annum while the interest rate on the swaps was 2.252% to 2.271% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it was economically unfeasible to transfer to the swap counterparty.

Defeased Debt

On November 17, 2004, the Agency issued $80,000,000 of Rental Housing Bonds, 2004 Series C that, together with an Agency contribution of $4.241 million, defeased, in part, previously issued Rental Housing Bonds, 1995 Series D. Consequently, the trust account assets and the liability for the defeased bonds were not included in the Agency's statement of net assets after that date. The reacquisition price exceeded the net carrying amount of the defeased debt by $4.726 million, which has been netted against the new debt and amortized over the remaining life of the new debt. The refunding of these bonds decreased total future debt service by approximately $12.774 million and resulted in a present value savings of approximately $8.114 million. At June 30, 2005, the outstanding principal of the defeased bonds was $0.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2005 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$2,273	$1,307	$ 3,580
Rental Housing	1,029	—	34	1,063
Residential Housing Finance	1,884	—	2,128	4,012
Single Family	7,030	—	122	7,152
State Appropriated	—	—	454	454
Federal Appropriated	—	—	1,058	1,058
Agency-wide Totals	$9,943	$2,273	$5,103	$17,319

The amount of arbitrage rebate payable that is not due within one year in Rental Housing is $.683 million, in Residential Housing Finance is $1.579 million and in Single Family is $4.576 million, for a total of $6.838 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2005 consist of the following (in thousands):

		Due from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ —	$ 5	$ 23	$ —	$ 2	$216	$ 246
Due to	Rental Housing	58	—	—	—	—	—	58
Due to	Residential Housing Finance	3,777	21,058	—	—	—	—	24,835
Due to	Single Family	—	—	—	—	—	—	—
Due to	State Appropriated	—	—	271	547	—	—	818
Due to	Federal Appropriated	—	—	—	—	—	—	—
Due to	Agency-wide Totals	$3,835	$21,063	$294	$547	$ 2	$216	$25,957

The $21.058 million due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $19.882 million.

All remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2005 consist of the following (in thousands):

	Funds	Transfer from General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve-administrative reimbursement	$—	$1,909	$6,050	$4,234	$4,359	$772	$17,324
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	1,853	—	—	—	—	1,853
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	120	620	—	—	740
	Federal Appropriated	—	580	—	—	—	—	580
	Agency-wide Totals	$—	$4,342	$6,170	$4,854	$4,359	$772	$20,497

Interfund transfers recorded in Interfund Payable (Receivable) are used to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds, and to move payments from Rental Housing to Residential Housing Finance due on outstanding loans between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2005, consist of the following (in thousands):

	Funds	Transfer from General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	998	—	—	—	998
	Residential Housing Finance	4,036	—	—	13,993	—	—	18,029
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$4,036	$—	$998	$13,993	$—	$—	$19,027

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and of loans made from

Net Assets (continued)

the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2005 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$30,783	$ —	$ —	$30,783
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(155)	155	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	30,783	(155)	155	30,783
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) will be invested in intermediate-to long-term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market	70,742	—	—	70,742
Unrealized appreciation in fair market value of investments	—	240	—	240
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	70,742	240	—	70,982

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Affordability Fund (Pool 3), Residential Housing Finance				
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	$191,581	$ —	$ —	$191,581
Unrealized appreciation in fair market value of investments		406	(155)	251
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	191,581	406	(155)	191,832
Agency-wide Total	$293,106	$491	$ —	$293,597

The Housing Endowment Fund (Pool 1) is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2005.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law.

Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at "normal" retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for

Defined Benefit Pension Plan (continued)

each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The Agency's pension contribution to the System for the year ending June 30, 2005 was $444 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows.

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/04	$7,884,984	$7,878,363	$ (6,621)	100.08%	$1,965,546	(0.34)%
07/01/03	7,757,292	7,830,671	73,379	99.06	2,009,975	3.65
07/01/02	7,673,028	7,340,397	(332,631)	104.53	1,915,350	(17.37)

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percent Contributed
2004	9.43%	$1,965,546	$82,102	$103,249	$78,622	76.15%
2003	8.34	2,009,975	83,850	83,782	80,399	95.96
2002	6.79	1,915,350	79,487	50,565	76,614	151.52

*This includes contributions from other sources (if applicable).

The information presented is as of July 1, 2004, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2004, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Risk Management

MHFA is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. MHFA manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for MHFA's needs. MHFA bears a $1,000 deductible per claim for the following coverage limits.

Real and Personal Property	Actual Cost
Business interruption/loss of use/extra expense	$25,000,000
Bodily injury and property damage per person	$ 300,000
Bodily injury and property damage per occurrence	$ 1,000,000
Faithful performance/commercial crime	$11,000,000
Employee dishonesty	$ 25,000

MHFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years.

Risk Management (continued)

The Agency participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

MHFA participates in the State of Minnesota Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims. MHFA workers compensation costs and claims have been negligible during the last three years.

Commitments

As of June 30, 2005, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	621
Residential Housing Finance	167,853
Single Family	—
State Appropriated	70,689
Federal Appropriated	25,412
Agency-wide Totals	$264,575

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2005 was $.969 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year				
	2006	2007	2008	2009	Total
Amount:	$967	$983	$913	$858	$3,721

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2005 and may be renewed annually for additional one-year periods through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2005 there was no balance outstanding. The line of credit activity for the year ended June 30, 2005, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$0	$0	$0

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on General Reserve's financial position or results of operations.

Subsequent Events

On June 9, 2005 the Board of the Agency approved series resolutions authorizing the issuance of $162,005,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2005 Series J, 2005 Series K, 2005 Series L and 2005 Series M were delivered on August 4, 2005.

The Agency called for early redemption subsequent to June 30, 2005 the following bonds:

Program Funds	Retirement Date	Par Value
Residential Housing Finance	July 1, 2005	$11,385,000
Single Family	July 1, 2005	31,740,000
Rental Housing	August 24, 2005	560,000

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2001 – 2005

		2001	2002	2003	2004	2005
Loans Receivable, net	Multifamily programs	$ 353,893	$ 337,087	$ 348,196	$ 362,870	$ 350,881
	Homeownership programs	1,228,105	1,212,436	1,009,937	932,777	1,061,556
	Home improvement programs	108,860	104,537	92,345	89,157	101,657
	Total	$1,690,858	$1,654,060	$1,450,478	$1,384,804	$1,514,094
Bonds Payable, net	Multifamily programs	$ 325,314	$ 267,739	$ 246,701	$ 216,928	201,200
	Homeownership programs	1,640,348	1,668,449	1,579,978	1,607,661	1,794,886
	Home improvement programs	—	—	20,000	20,000	20,000
	Total	$1,965,662	$1,936,188	$1,846,679	$1,844,589	$2,016,086
Loans purchased or originated during year	Multifamily programs	$ 14,143	$ 18,341	$ 58,607	$ 50,509	$ 20,056
	Homeownership programs	165,633	229,603	145,748	216,109	305,899
	Home improvement programs	40,027	37,281	35,391	34,981	44,279
	Total	$ 219,803	$ 285,225	$ 239,746	$ 301,599	$ 370,234
Net Assets	Total net assets	$ 582,674	$ 612,361	$ 648,459	$ 666,978	$ 697,192
	Percent of total assets	21.5%	22.6%	24.6%	25.2%	24.5%
Revenues over Expenses	Revenues over expenses for the year(1)	$ 42,023	$ 29,687	$ 36,098	$ 18,519	$ 30,214

Notes:

(1) Includes Administrative Reimbursement revenue received from State Appropriated fund of $5,618 in 2002, $4,497 in 2003, $4,131 in 2004, and $4,251 in 2005. This revenue item was included in revenues over expenses beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2005 (with comparative totals for June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,841	$ 41,485	$ 844,611	$165,952
	Investment securities	110,692	47,840	84,376	14,708
	Loans receivable, net	—	212,420	893,785	407,889
	Interest receivable on loans	—	1,289	3,956	2,278
	Interest receivable on investments	819	1,153	815	516
	Mortgage insurance claims receivable	—	—	485	437
	Real estate owned	—	—	289	616
	Capital assets, net	2,764	—	—	—
	Other assets	1,228	3	25	—
	Total assets	$120,344	$304,190	$1,828,342	$592,396
Liabilities	Bonds payable, net	$ —	$201,200	$1,312,647	$502,239
	Interest payable	—	3,846	18,334	13,779
	Accounts payable and other liabilities	3,580	1,063	4,012	7,152
	Interfund payable (receivable)	3,589	21,005	(24,541)	547
	Funds held for others	79,628	—	—	—
	Total liabilities	86,797	227,114	1,310,452	523,717
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	77,076	255,076	68,679
	Restricted by covenant	30,783	—	262,814	—
	Invested in capital assets	2,764	—	—	—
	Total net assets	33,547	77,076	517,890	68,679
	Total liabilities and net assets	$120,344	$304,190	$1,828,342	$592,396

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$1,056,889	$ 939,989
257,616	309,354
1,514,094	1,384,804
7,523	7,395
3,303	3,425
922	763
905	1,593
2,764	1,774
1,256	1,649
$2,845,272	$2,650,746
$2,016,086	$1,844,589
35,959	36,283
15,807	15,152
600	1,234
79,628	86,510
2,148,080	1,983,768
400,831	387,747
293,597	277,457
2,764	1,774
697,192	666,978
$2,845,272	$2,650,746

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$14,552	$ 44,910	$ 30,811
	Interest earned on investments	730	3,442	21,695	9,202
	Administrative reimbursement	17,219	—	—	—
	Fees earned and other income	8,092	892	421	—
	Unrealized gains (losses) on securities	(251)	1,449	177	899
	Total revenues	25,790	20,335	67,203	40,912
Expenses	Interest	—	12,836	34,935	32,092
	Loan administration and trustee fees	—	239	3,361	1,658
	Administrative reimbursement	—	1,909	6,050	4,234
	Salaries and benefits	13,693	—	—	—
	Other general operating	5,227	—	897	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(135)	5,873	—
	Provision for loan losses	—	(521)	1,667	11
	Total expenses	18,920	14,328	52,783	37,995
	Revenues over expenses	6,870	6,007	14,420	2,917
Other changes	Non-operating transfer of assets between funds	(3,438)	998	16,433	(13,993)
	Change in net assets	3,432	7,005	30,853	(11,076)
Net Assets	Total net assets, beginning of year	30,115	70,071	487,037	79,755
	Total net assets, end of year	$33,547	$77,076	$517,890	$ 68,679

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 90,273	$ 95,296
35,069	37,248
17,219	14,349
9,405	8,883
2,274	(9,022)
154,240	146,754
79,863	89,514
5,258	5,302
12,193	9,532
13,693	13,131
6,124	6,034
5,738	2,492
1,157	2,230
124,026	128,235
30,214	18,519
—	—
30,214	18,519
666,978	648,459
$697,192	$666,978

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve Account	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 22,977	$ 92,607	$ 113,299
	Investment in loans	—	(6,045)	(363,753)	(436)
	Interest received on loans	—	15,457	44,718	29,654
	Other operating	—	—	(897)	—
	Fees and other income received	8,057	892	451	—
	Salaries, benefits and vendor payments	(18,623)	(214)	(2,603)	(1,575)
	Administrative reimbursement from funds	17,324	(1,909)	(6,050)	(4,234)
	Interest transferred to funds held for others	(2,484)	—	—	—
	Deposits into funds held for others	30,445	—	—	—
	Disbursements made from funds held for others	(37,052)	—	—	—
	Interfund transfers and other assets	(1,057)	—	368	(620)
	Net cash provided (used) by operating activities	(3,390)	31,158	(235,159)	136,088
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	85,290	713,728	—
	Principal repayment on bonds	—	(98,795)	(333,295)	(192,795)
	Interest paid on bonds and notes	—	(11,339)	(27,580)	(36,002)
	Financing costs paid related to bonds issued	—	(3,053)	(2,898)	—
	Interest paid/received between funds	—	(1,635)	1,635	—
	Principal paid/received between funds	—	(218)	218	—
	Premium paid on redemption of bonds	—	—	—	(142)
	Agency contribution to program funds	—	188	13,805	(13,993)
	Transfer of cash between funds	(4,036)	810	3,226	—
	Net cash provided (used) by noncapital financing activities	(4,036)	(28,752)	368,839	(242,932)
Cash flows from investing activities	Investment in real estate owned	—	—	(95)	(533)
	Interest received on investments	3,566	3,539	19,655	7,215
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	1,558	5,435
	Proceeds from maturity, sale or transfer of investment securities	99,604	14,180	97,912	6,300
	Purchase of investment securities	(95,710)	(21,913)	(38,016)	(7,613)
	Net cash provided (used) by investing activities	7,460	(4,194)	81,014	10,804
	Net increase (decrease) in cash and cash equivalents	34	(1,788)	214,694	(96,040)
Cash and cash equivalents	Beginning of year	4,807	43,273	629,917	261,992
	End of year	$ 4,841	$ 41,485	$ 844,611	$ 165,952

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 228,883	$ 359,918
(370,234)	(301,599)
89,829	92,036
(897)	(252)
9,400	8,988
(23,015)	(23,321)
5,131	4,852
(2,484)	(2,649)
30,445	35,917
(37,052)	(35,751)
(1,309)	(463)
(71,303)	137,676
799,018	764,426
(624,885)	(765,673)
(74,921)	(89,538)
(5,951)	(4,726)
—	—
—	—
(142)	(1,418)
—	—
—	—
93,119	(96,929)
(628)	(741)
33,975	37,624
6,993	6,593
217,996	235,743
(163,252)	(225,311)
95,084	53,908
116,900	94,655
939,989	845,334
$1,056,889	$ 939,989

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

Reconciliation of revenue over expenses to net cash provided (used) by operating activities

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over expenses	$ 6,870	$ 6,007	$ 14,420	$ 2,917
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(65)	1,000	(1,524)
Depreciation	555	—	—	—
Realized losses (gains) on sale of securities, net	9	—	(1,193)	—
Unrealized losses (gains) on securities, net	251	(1,449)	(177)	(899)
Provision for loan losses	—	(521)	1,667	11
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(135)	5,873	—
Capitalized interest on loans and real estate owned	—	(67)	(123)	(276)
Interest earned on investments	(739)	(3,438)	(21,548)	(9,706)
Interest expense on bonds and notes	—	12,836	34,935	32,092
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	16,932	(271,146)	112,863
Decrease (increase) in interest receivable on loans	—	408	(1,069)	533
Increase in arbitrage rebate liability	—	625	1,046	614
Interest transferred to funds held for others	(2,484)	—	—	—
Increase in accounts payable	124	20	791	78
Increase (decrease) in interfund payable, affecting operating activities only	479	—	(119)	(620)
Increase (decrease) in funds held for others	(6,607)	—	—	—
Other	(1,848)	5	484	5
Total	(10,260)	25,151	(249,579)	133,171
Net cash provided (used) by operating activities	$ (3,390)	$31,158	$(235,159)	$136,088

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 30,214	$ 18,519
(589)	(3,464)
555	481
(1,184)	(2,023)
(2,274)	9,022
1,157	2,230
5,738	2,492
(466)	(537)
(35,431)	(36,478)
79,863	89,514
(141,351)	58,319
(128)	637
2,285	1,358
(2,484)	(2,649)
1,013	518
(260)	(91)
(6,607)	166
(1,354)	(338)
(101,517)	119,157
$ (71,303)	$137,676

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Member

Marina Muñoz Lyon, Vice Chair
Member

The Honorable Patricia Anderson
Ex officio member
State Auditor, State of Minnesota

Lee Himle
Member

Betty Lou Berg
Member

Paul Gaston
Member

Joseph Johnson III
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank, N.A.

Bond Paying Agent
Wells Fargo Bank, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Financial Advisor
Caine Mitter & Associates

Underwriting Team
UBS Financial Services Inc.
Piper Jaffray & Co.
RBC Dain Rauscher Inc.

Certified Public Accountants
Larson, Allen, Weishair & Co., LLP

Location

The Minnesota Housing Finance Agency offices are located at 400 Sibley Street, Suite 300, St. Paul, Minnesota 55101-1998.

For further information, please write, call or visit our web site.

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mhfa.state.mn.us

If you use a text telephone or Telecommunications Device for the Deaf, you may call (651) 297-2361.

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, status with regard to receipt of public assistance, creed, marital status, sexual orientation, familial status, national origin, sex, religion, age, or disability in employment or the provision of services or resources. Information contained in this publication will be made available in an alternative format upon request.